

# **SUPERVISORY STRUCTURES FOR PRIVATE PENSIONS IN OECD COUNTRIES: PRELIMINARY SURVEY ANALYSIS**

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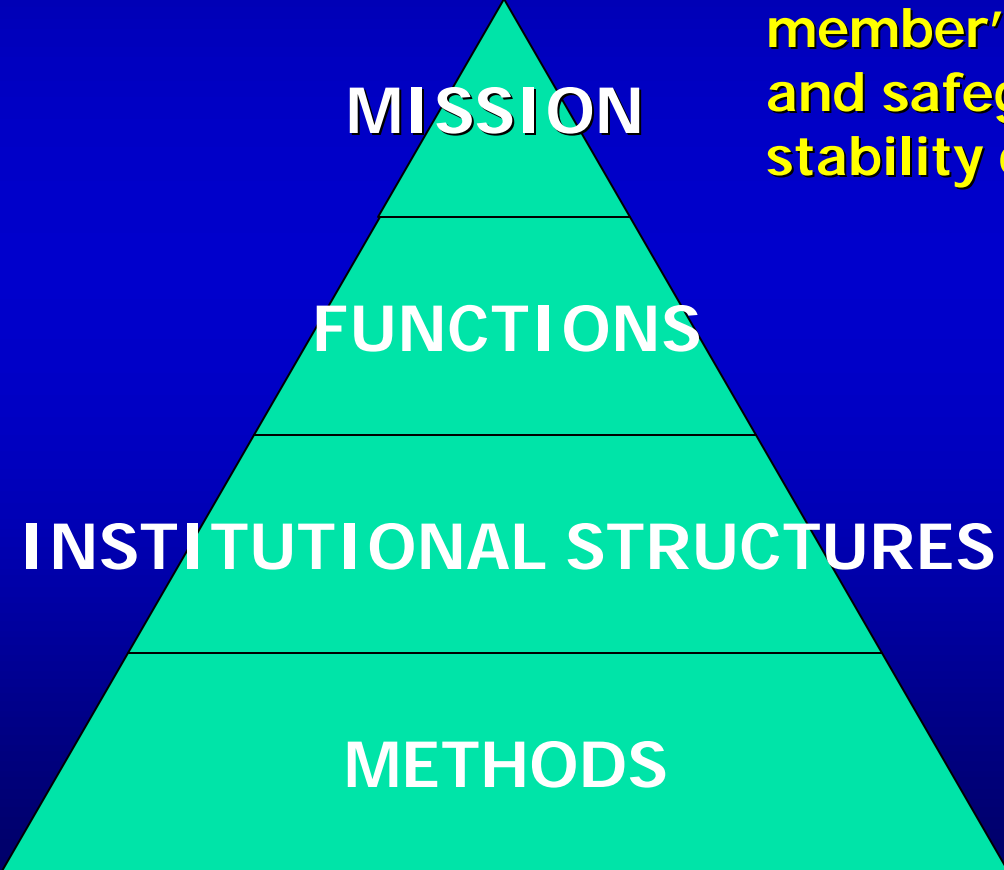
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# Summary

1. Supervisory Framework for Private Pension Schemes
  2. Institutional Structures
    - integration of financial supervision
    - regulation and supervision
    - political and operational independence,
    - staffing and funding,
    - governance, reporting and disclosure
    - enforcement capacities
  3. INPRS/OECD Private Pension Supervision Project
- (\*) Data and information presented are preliminary.**

# Private Pension Supervisory Framework

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**“Protecting the plan member’s interest and safeguarding the stability of the system”**

# Supervisory Functions:

1. Licensing/registration
2. Qualification for tax benefits

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3. Governance
4. Contribution and regularity of payment
5. Membership and portability
6. Benefits eligibility
7. Conditions and access to plans
8. Investments, asset allocation and performance
9. Minimum capital and reserves
10. Custodian Procedures
11. Financial, actuarial and accounting methods
12. Administrative fees and marketing
13. Disclosure procedures
14. Merger and liquidation process

## **Institutional structure of the private pension supervision is related to:**

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- 1. State political and administrative organisation: federalism, unitarism, centralization, decentralization**
- 2. Characteristics the Private Pension Scheme: mandatory, voluntary, occupational, personal, DC or DB**
- 3. Market structure: number of funds/plans, type of fund/plans, market concentration (financial conglomerates, oligopolies)**
- 4. Regulatory and supervisory approach: qualitative, prudential, quantitative, self supervision, re-active, pro-active**

# Private Pension Supervision in OECD countries 2001/2002 (\*) – PRELIMINARY INFORMATION

COUNTRY	ANNUAL BUDGET (€ million)	NUMBER OF EMPLOYEES	NUMBER OF FUNDS/PLANS	PARTICIPANTS (thousands)	ASSETS (€ billion)
APRA (AUS)	13.7	127	249,262 funds/plans	24,800	281.5
OSFI (CAN)	2.1	20	1,195 plans	557	56.1
OSIPF (Czech R)	-	20	14 funds	2,473	1.7
FSA (DEN) (1)	-	15	80 funds	720	32.2
BAFIN (GER)	-	29	139 funds	3,416	68.7
HFSA (HUN)	-	-	164 funds	3,407	27.3
FME (ICE)	-	7	82 funds	228	7.7
PB (IRE)	2.6	31	107,965 funds/plans	709	40.5
COVIP(IT)	2.5	60	534 funds	1,907	27.7
PB (JAP)	-	30	1,807 funds/plans	14,116	692.6
CON SAR (MEX)	13.8	170	11 funds	29,421	40.8
GA (NZ)	0.2	3	808 funds	701	5.1
KNUIFE (POL) (1)	-	208	17 funds	11,060	4.4
OPRA (UK)	15.4	260	103,588 plans	40,000	1,050.0
EBSA (US)	-	900	700,000 plans	-	3,700.0

Source: Replies to the OECD Secretariat questionnaire DAF/AS/PEN/WD (2002)26 and country papers prepared by OECD Delegations.

(1) Information for employment refers to insurance and pension supervision

# Private Pension Supervision in Latin American countries - 1997

<b>COUNTRY</b>	<b>ANNUAL BUDGET</b> ( \$ million)	<b>NUMBER OF EMPLOYEES</b>	<b>NUMBER OF FUNDS/PLANS</b>	<b>PARTICIPANTS</b> (thousands)
<b>Argentina</b>	<b>12.5</b>	<b>183</b>	<b>18</b>	<b>6000.0</b>
<b>Bolivia</b>	<b>1.9</b>	<b>21</b>	<b>2</b>	<b>328.6</b>
<b>Chile</b>	<b>7</b>	<b>134</b>	<b>13</b>	<b>5775.9</b>
<b>Peru</b>	<b>5.1</b>	<b>85</b>	<b>6</b>	<b>1150.2</b>

Source: Demarco, G and Rofman, Rafael. Supervising Mandatory Funded Pension Systems: Issues and Challenges. SP Discussion Paper 9817. The World Bank 1998.

## Supervisory Strategies

1. APRA - few entry limitations (only for trustees operating public offer pension funds – 28 in the last 3 years), primarily risk based on going supervision combining reactive and proactive on site and off site quantitative examinations (2.000 inspections in the last 3 years)
2. Pension Board – Some entry limitations (45 thousand new schemes were licensed), on going supervision based on random examinations and re-active investigations
3. HFSA – Several limits to entry (5 registrations in the last 3 years), pro-active integral surveillance with on-site examinations and off-site monitoring
4. CONSAR – Several limits to entry (2 registrations in the last 3 years), integral pro-active surveillance with on-site examinations and off-site monitoring
5. EBSA - Few barriers to entry (IRS received 130 thousand applications in the last 3 years), effective targeting, protect at-risk population, deterring violations

# Supervisory Structures by Sector in the OECD

<b>INTEGRATED</b> (Banks, Securities, Insurance Companies, Pension Funds)	<b>PARTIALLY            INTEGRATED</b> (Insurance Companies and Pension Funds)	<b>SPECIALISED</b> (Pension Funds)
Australia Austria Canada Denmark Germany Hungary Iceland Korea Norway Sweden	Belgium Czech Republic Finland Luxembourg Netherlands New Zealand Poland Portugal Spain Turkey	Ireland Italy Japan Mexico Slovak Republic Switzerland United Kingdom United States

# Integration *versus* Specialization: Pros and Cons

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## Financial Integration

- Financial conglomerates
- Economies of scale and scope
- Avoid authority overlapping
- Intersectoral supervisory consistency
- Information flow

## Specialization

- Pensions are different product with several non financial characteristics
- Pension reform
- Co-ordination mechanisms

## Co-ordination mechanisms between supervisory agencies

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- Co-ordination forums/commissions
- Governing boards including members of other supervisory authorities
- Memorandums of understandings for division of activities, reduction of duplication and costs for industry, joint-operations
- Databases integration
- Legal mandate or agreements for information sharing
- Liaison meetings

# Supervisory agency institutional independence

Formally dependent	Formally independent
<p>Czech Republic (Ministry of Finance)</p> <p>Japan (Min. of Health, Labour and Welfare)</p> <p>New Zealand (Min. of Econ. Develop.)</p> <p>Spain (Ministry of Economy)</p> <p>Turkey (Ministry of Economy)</p>	<p>Australia</p> <p>Canada</p> <p>Denmark</p> <p>Germany</p> <p>Hungary</p> <p>Iceland</p> <p>Ireland</p> <p>Italy</p> <p>Netherlands</p> <p>Poland</p> <p>Sweden</p> <p>UK</p>

# Regulation x Supervision

<p>Ministries are the responsible for regulation and supervision</p>	<p>Independent agencies are the main regulators and supervisors</p>	<p>Ministries are the main regulators and independent agencies are the main supervisors</p>
<p>Czech Republic Japan New Zealand Spain Turkey</p>	<p>Canada Denmark Ireland</p>	<p>Australia Germany Hungary Iceland (regulatory powers) Italy (regulatory powers) Netherlands (regulatory powers) Mexico Poland Sweden (regulatory powers) United Kingdom</p>

# Financing supervisory agencies

General budget	Mixed (government and supervised entities)	Supervised entities
<p>Czech Republic Italy Japan Spain Turkey</p>	<p>Mexico New Zealand Poland United Kingdom</p>	<p>Australia Canada Denmark Germany Hungary Iceland Ireland Netherlands Sweden</p>

# Should supervised entities finance the supervisor?

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## Pros

- Private pension supervision is a public service provided to a group and those who benefit should be the ones who pay
- Increasing flexibility and reducing constraints

## Cons

- "Captured Agencies"

# Nominating directors...

Mandate	Without Mandate
Australia – 5 years	Czech Republic
Canada – 7 years	Denmark
Hungary – 6 years	Germany
Iceland – 4 years	Japan
Ireland – 4 years	Mexico
Italy – 4 years	New Zealand
Netherlands – 6/5 years	Spain
Poland – 5 years	Turkey
Sweden – 6 years	United Kingdom

# Supervisory agency operational independence: firing, hiring, paying...

Complete Autonomy	Partial autonomy	No autonomy
<p><b>Australia</b></p>	<p><b>Canada</b>  <b>Denmark</b>  <b>Germany</b>  <b>Hungary</b>  <b>Ireland</b>  <b>Italy</b>  <b>Mexico</b>  <b>Poland</b>  <b>Sweden</b>  <b>UK</b></p>	<p><b>Czech Republic</b>  <b>Iceland</b>  <b>Japan</b>  <b>New Zealand</b>  <b>Spain</b>  <b>Turkey</b></p>

# Who ultimately can revise the supervisor's decisions and acts?

Superior Authority (Minister)	Court of Justice
<p>Canada</p> <p>Germany</p> <p>Japan</p> <p>Spain</p> <p>Turkey</p>	<p>Australia</p> <p>Czech Republic</p> <p>Denmark</p> <p>Hungary</p> <p>Iceland</p> <p>Ireland</p> <p>Italy</p> <p>Mexico</p> <p>Netherlands</p> <p>New Zealand</p> <p>Poland</p> <p>Sweden</p> <p>United Kingdom</p>

# Supervisors getting a job in the private sector...

Private sector pays better	Public sector pays better or similar	Restrictions for movements	No restrictions form movements
<p>Czech Rep. Ireland Italy New Zealand Turkey</p>	<p>Australia Canada Denmark Germany Hungary Iceland Mexico Poland Sweden UK</p>	<p>Australia (*) Canada Denmark (*) Poland</p> <p><i>(*) Restriction for the disclosure of inside information</i></p>	<p>Czech Rep. Germany Hungary Iceland Ireland Italy Mexico New Zealand Spain Turkey UK</p>

# Who supervise the supervisors? Avoiding principal-agent problem...

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Agencies oversight by boards	Agencies without boards
Australia Denmark Germany Hungary Iceland Ireland Italy Mexico Netherlands Poland Sweden UK	Czech Republic Canada Spain Japan New Zealand Turkey

## Who supervise the supervisors?

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- Parliament (Australia, Mexico, Hungary, New Zealand)
- Ministries (Canada, Czech Rep, Denmark, Hungary, Germany, Iceland, Ireland, Italy, Japan, Mexico, New Zealand, Poland, Spain, Turkey)
- Prime Ministers / President (Sweden, UK)
- National Audit Office (All countries)
- Pension Industry (Australia)
- General Public – disclosure policies - annual reports and information available in the internet (all countries)

## **CONCLUSIONS: “good practices” on private pensions supervision (for discussion)**

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- 1. Design of the supervisory framework – each agency should have well defined mission, objectives and responsibilities**
- 2. Co-ordination, co-operation and information sharing**
- 3. Operational independence**
- 4. Pension industry should participate in the financing though a transparent process**
- 5. Mandates**

## **CONCLUSIONS: “Good practices” on private pensions supervision (for discussion)**

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6. Adequate powers

7. Staff

8. Conflicts of interests and disclosure of confidential information

9. Boards

10. Disclosure policies

# Private Pension Supervision Project: Structures and Methods

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**Objective:** Consolidate information, produce analysis and identify good practices

**Means – Supervisory Structures:** Questionnaire - OECD Replies: Australia, Canada, Czech Republic, Denmark, Germany, Hungary, Iceland, Ireland, Italy, Japan, Mexico, New Zealand, Netherlands, Poland, Spain, Sweden, Turkey and United Kingdom  
Other replies: Bulgaria, Slovenia, Indonesia, Jordan, Kazakhstan, Kenya, Latvia, Lithuania, Philippines and Thailand

**Means - Supervisory Methods:** : Country papers based on OECD Guidelines (Australia, Ireland, Hungary, Latvia, Mexico, US)

**Products of the supervisory methods and structures:**

- Development of the guideline on pension supervision
- Worldwide database of country experiences
- Publication of the studies – Private Pension Series